

Message Text

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SUBJECT: ECONADS:

REF: NATO 6310

1. WE SUGGEST FOLLOWING CHANGES. SOME OF THEM ARE EDITORIAL, OTHERS ARE OFFERED TO IMPROVE ACCURACY OF DIRECTORATE DRAFT. COMMENTS KEYED TO PARAS OF ECONOMIC DIRECTORATE DRAFT TRANSMITTED REFTEL:

PARA 1. "... AND FROM THE EXISTENCE IN ALL OF THE EAST EUROPEAN COUNTRIES OF A STRICT SYSTEM OF PLANNING OF THE DOMESTIC ECONOMIES AND FOREIGN TRADE."

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PARA 2. SUGGEST SECOND SENTENCE BE REPLACED BY THE

FOLLOWING:

"THE COMPLEX PLAN WILL BE STRENGTHENED OVER THE NEXT FIVE YEARS AT THE POLICY LEVEL THROUGH THE ATTAINMENT BY THE USSR OF A LONG-SOUGHT SOVIET AIM: SYNCHRONIZATION OF MOST CEMA-COUNTRY DOMESTIC FIVE YEAR PLANS WITH THAT OF THE USSR (THE TENTH FIVE-YEAR PLAN, 1976-1980). AT THE OPERATIONAL LEVEL, THE HARMONIZATION OF NATIONAL FIVE-YEAR PLANS IS ACCOMPANIED BY THE INTRODUCTION OF A NEW PRICING SYSTEM. IT ALSO FACILITATES THE ATTRACTION OF CEMA

COUNTRIES BY THE USSR INTO "JOINT PROJECTS" ON SOVIET TERRITORY WHICH BECOME THE SOLE PROPERTY OF THE SOVIET UNION. PLAN COORDINATION, THEN, WORKS NOT ONLY TO FURTHER INCREASE SOVIET ECONOMIC INFLUENCE OVER ITS ALLIES ALLIES, BUT ALSO TO DEVELOP THE SOVIET ECONOMIC INFRA-STRUCTURE."

PARA 3. SUGGEST REPLACEMENT BY THE FOLLOWING:

"THE SOVIET UNION, ANTICIPATING INCREASED EAST-WEST TRADE AND FEARING THE POTENTIAL DISRUPTIVE FORCE OF THIS TRADE ON THE ECONOMIC ORIENTATION OF ITS CEMA PARTNERS (I.E. AWAY FROM CEMA SOLIDARITY), IS ANXIOUS TO TIGHTEN ITS GRIP ON THEM IN ORDER TO BUILD A BLOC WHICH IS AS CLOSELY KNIT AS POSSIBLE FROM WHICH TO FACE THE WORLD."

PARA 5. SUGGEST DELETION OF LAST SENTENCE. OUR ANALYSIS IS THAT THERE HAS BEEN NO REACTION AWAY FROM THE CENTRALIZED ECONOMIC SYSTEM IN ROMANIA AND THAT ECONOMIC REFORMS IN POLAND AND HUNGARY ARE NOT RELATED TO THE EXAMPLE SET BY THE WEST.

PARA 7. SUGGEST DELETION OF THE FIRST SENTENCE SINCE THE SOVIET UNION HAS NOT GREATLY IMPROVED ITS TERMS OF TRADE WITH THE WEST AS A RESULT OF PRICE INCREASES IN BASIC COMMODITIES. WE WOULD SUGGEST THE FOLLOWING:

"THE STRONG UPWARD MOVEMENT IN THE PRICE OF BASIC COMMODITIES PROMPTED THE SOVIET UNION IN JANUARY 1975 TO RAISE PRICES TO ITS ALLIES. THIS ACTION REDUCED THE COMPETITIVE ADVANTAGE WHICH THEY HAD DERIVED FROM LOW-COST RAW MATERIALS"

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ALSO PARA 7. BELIEVE LAST WORD SHOULD BE "BILLION" RATHER THAN "MILLION."

PARA 8. WE WOULD ADD SOME RECOGNITION OF THE NEW CEMA PRICE SYSTEM WHICH, IF CONTINUED, WILL IMPLY FAIRLY RAPID REVISION OF RAW MATERIAL PRICES TOWARD WORLD MARKET LEVELS. WE WOULD SUGGEST THE FOLLOWING:

"DESPITE INCREASES IN RAW MATERIAL PRICES -- ABOUT THREEFOLD IN THE CASE OF OIL -- PRICES REMAIN SUBSTANTIALLY LOWER THAN WORLD RATES (SOME 40 PERCENT FOR OIL). THE NEW ADJUSTMENT MECHANISM, PROVIDING FOR ANNUAL REVISIONS BASED ON A SLIDING FIVE-YEAR AVERAGE, IS LIKELY TO BRING PRICES INCREASINGLY CLOSER INTO LINE WITH WORLD MARKET RATES. EXISTING INCREASES ARE STILL SUFFICIENTLY STEEP, AND INDEED MAY HAVE BEEN CAREFULLY CALCULATED"

PARA 9 (II). THIS SENTENCE IS MISLEADING, IF NOT INACCURATE AND SHOULD BE OMITTED. THE USSR KNOWS THAT, FOR THE PRESENT, COMMODITY EXPORTS WILL NOT COVER THE COST OF IMPORTED COMMODITIES. HARD CURRENCY BORROWINGS AND GOLD SALES HAVE BEEN, AND REMAIN, THE OTHER KEY INGREDIENTS IN SOVIET FINANCIAL MANAGEMENT TO COVER THE HARD CURRENCY COSTS OF IMPORTED COMMODITIES. ASIDE FROM FINLAND, WHICH IS IN A SPECIAL CATEGORY, SOVIET OIL SALES TO THE WEST HAVE BEEN RELATIVELY SMALL."

PARA 10. SUGGEST THAT THE WORDS "BELOW WORLD MARKET PRICES" BE DELETED FROM END OF PARAGRAPH IN ORDER TO BE CONSISTENT WITH CHANGES SUGGESTED FOR PARA 8, ABOVE.

PARA 11. SUGGEST THAT THIS PARA BE ALTERED TO READ AS FOLLOWS:

"... PRICE OF MANUFACTURED GOODS EXPORTED TO THE USSR, WHICH, THOUGH SUBSTANTIAL, DOES NOT IN MOST CASES FULLY OFFSET THE FINANCIAL BURDEN CREATED BY THE INCREASE IN THE PRICE OF IMPORTS."

PARA 11(C). THIS PARA IS MISLEADING AND SHOULD PROBABLY BE OMITTED. THE ONLY MULTILATERAL CEMA ENERGY PROJECT CURRENTLY UNDER WAY IN THE USSR IS THE ORENBURG GAS CONFIDENTIAL

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PIPELINE PROJECT, WHICH COULD HARDLY BE CALLED SIBERIAN DEVELOPMENT. ON THE OTHER HAND, FUTURE CEMA-COUNTRY PARTICIPATION IN GENUINE SIBERIAN ENERGY DEVELOPMENT IS NOT TO BE EXCLUDED.

PARA 11(D). WE QUESTION THE ASSERTION HERE, PARTICULARLY SINCE 1973. THERE HAVE BEEN NO INDICATIONS THAT CEMA COUNTRIES MADE ABOVE-QUOTA PURCHASES OF OIL SINCE THEN. IN THE ABSENCE OF CONTRARY EVIDENCE, WE WOULD ARGUE THAT THE USSR IS UNLIKELY TO PART WITH SCARCE RESOURCES IN THIS MANNER.

PARA 13(I). WE WOULD QUALIFY THE PARENTHETICAL EXPRESSION TO READ:

"COUNTRIES LIKE ROMANIA AND POLAND WHICH ARE MORE NEARLY

SELF-SUFFICIENT IN ENERGY"

WE ARE NOT YET PREPARED TO COMMENT ON PARA 15. HOPE
TO PROVIDE FURTHER GUIDANCE SHORTLY.
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